

FACILITATOR CHEAT SHEET

How much would you pay for a washing machine?

This is an exercise to help people explore the different forms of credit available to them. It is also an opportunity to discuss what options there might be for buying something as important as a washing machine without credit.

Not all of the types of credit covered will be available to everyone – for example, only those in receipt of certain benefits can get a budgeting loan, only those with a good credit history can access a low rate credit card. It is still worth using all the cards, though, so people can see what might be on offer should their circumstances change.

The main point is to stress that if we choose to take out credit, we need to find out what it involves before we borrow – so we can make informed choices and ensure we can pay it back.

- Ask the group what they would do if their washing machine broke down
- Lay out the *How Much Would You Pay For A Washing Machine?* cards, with the types of credit side up (i.e. not the side with prices on)
- Have group put them in order from what they think is the least expensive to most, without turning them over
- Turn over cards and compare prices. Discuss why different types of credit vary in price so much- e.g. APR, credit history, length of borrowing etc.
- Discuss what other options people might have

Here is some additional information if people ask how some of the figures were arrived at. **Remember the figures are representative of what credit products were on offer in August 2017.**

Why are there different prices for the washing machine?

The washing machine used is an Indesit BWE91484X 9KG Washing Machine – White. 9kg is the size of washing machine recommended for a household of 4-5 people ¹. Weekly payment stores charge a different price for their goods and it can be hard to find the identical product some via a weekly payment store. We have carefully checked that the specification of the weekly payment store washing machine is the same in the most important respects (size, energy rating etc.).

¹ By Euronics network of independent electrical retailers

MADE OF MONEY

How did you work out the cost of using an overdraft?

Overdraft terms vary widely and are open to review/change. We felt it was important to have an overdraft option as people often use their overdraft without recognizing it as a form of credit or considering what it might be costing them. We used the overdraft terms for a Santander everyday current account. This charges the customer £1 for every day that they are overdrawn. We assumed the purchase of the washing machine puts the customer into overdraft for half the year. Some banks offer larger or lower cost overdrafts for a monthly fee – remind people to take that fee into account in their considerations.

Why the reference to a typical interest rate for the credit union?

Credit unions are independent of each other and will set their own rates for borrowing. By law they are not allowed to charge more than 3% per month (an APR of 42.6%). The *typical* rate is that quoted by the *money saving expert* website.

Why does the payday loan cost so much less than people expected?

Because the loan has only been for 31 days. People need to consider how they would repay a payday loan after 31 days and if they know they will have that amount in 31 days is there anything else they could do in the meantime.

Why is there no APR for the High Street money shop example?

It was hard to get quotations for a 12 month loan without disclosing personal information (and possibly having the query listed as a search on your credit history). For many high street money shop providers 6 months was the maximum period they would lend to for a new client. The site on which we found a 12 month loan gave the cost but insufficient details about the APR.

What is Fair for you?

It is a not for profit organisation that has been set up as an alternative to weekly payment stores such as Brighthouse. The maximum loan length is 78 weeks.

Why are the budgeting loan repayments made over such a short period?

Budgeting loans (budgeting advances under universal credit) are available to those who have been on income based benefits for 6 months see www.gov.uk/budgeting-help-benefits. No interest is charged and repayments are taken directly from benefits. The level of repayment is worked out by applying a percentage to the total weekly benefits received (excluding housing and council tax benefits). Where there are no other debts 12% is the figure used. In our example, we have used a couple on job seekers allowance with 3 children. Where there is an emergency or certain special circumstances, someone on benefits may qualify for a crisis advance or community support payment, these do not need repaying. Each local authority will have a different system so it is worth knowing how your own local authority works.

